

**Introduced by Senator Lowenthal**

February 22, 2012

---

An act to amend Section 922.6 of, and to add Section 717.5 to, the Insurance Code, relating to reinsurance.

LEGISLATIVE COUNSEL'S DIGEST

SB 1216, as introduced, Lowenthal. Reinsurance: professional reinsurers.

Existing law prohibits the transaction of any class of insurance in this state without first being admitted for that class of insurance, and admission is secured by procuring a certificate of authority from the Insurance Commissioner. Before granting a certificate of authority to any applicant, the commissioner is required to consider the qualifications of the applicant, including, but not limited to, capital and surplus and lawfulness and quality of investments.

This bill would authorize the commissioner to grant a certificate of authority to transact reinsurance, to an insurer admitted and domiciled in this state, or an insurer applying to become admitted and domiciled in this state, by determining that the insurer is qualified to be designated as a professional reinsurer, as prescribed, which includes, but is not limited to, the commissioner determining that the insurer is principally engaged in the business of reinsurance, that the insurer does not conduct significant amounts of direct insurance as a percentage of its net premiums, and is not engaged, on an ongoing basis, in the business of soliciting direct insurance.

Existing law requires insurers doing business in this state to annually make and file with the commissioner financial statements. Credit for reinsurance as an asset or a deduction from liability is allowed a foreign ceding insurer, with exceptions, to the extent the credit has been allowed

by the ceding insurer's state of domicile if the state of domicile is accredited by the National Association of Insurance Commissioners (NAIC), or the credit or deduction from liability would be allowed if the foreign ceding insurer were domiciled in this state. Credit for reinsurance as an asset or a deduction from liability may be disallowed if the commissioner finds that the financial condition of the reinsurer, or the collateral or other security provided by the reinsurer, does not satisfy the credit for reinsurance requirements applicable to a ceding insurer domiciled in this state.

This bill would instead require that credit for reinsurance not be denied a foreign ceding insurer to the extent that credit is recognized by the ceding insurer's domestic state regulator, provided that the domestic state is accredited by the NAIC, or the domestic state regulator has financial solvency requirements similar to the requirements necessary for NAIC accreditation.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

- 1 SECTION 1. Section 717.5 is added to the Insurance Code, to
- 2 read:
- 3 717.5. (a) For purposes of Sections 700 and 717, the
- 4 commissioner may determine that an insurer admitted and
- 5 domiciled in this state, or an insurer applying to become admitted
- 6 and domiciled in this state, including an applicant pursuant to
- 7 subdivision (a) of Section 709.5, is qualified to be designated as
- 8 a professional reinsurer, if the commissioner determines that the
- 9 insurer is all of the following:
- 10 (1) Principally engaged in the business of reinsurance.
- 11 (2) Does not conduct significant amounts of direct insurance as
- 12 percentage of its net premiums.
- 13 (3) Is not engaged, on an ongoing basis, in the business of
- 14 soliciting direct insurance.
- 15 (b) The commissioner may consider any information relevant
- 16 to this determination. An insurer that holds, or is applying for
- 17 qualification as, a professional reinsurer, shall provide the
- 18 commissioner with information or documentation regarding the
- 19 determinations under this section, upon request. The commissioner

1 may prescribe terms and conditions applicable to the certificate of  
2 authority, as appropriate under this section.

3 (c) A domestic, professional reinsurer shall continue to be  
4 qualified as long as it continues to meet the requirements set forth  
5 in this section.

6 (d) The commissioner may, after notice and an opportunity to  
7 be heard, revoke a reinsurer's qualification, if the reinsurer no  
8 longer qualifies under this section.

9 (e) A domestic insurer that is qualified as a professional reinsurer  
10 may include that designation in its name, solicitations, and  
11 advertisements.

12 (f) An insurer seeking qualifications under this section shall pay  
13 a filing fee of two thousand five hundred dollars (\$2,500), in  
14 advance, to the commissioner.

15 (g) The commissioner may adopt regulations in accordance with  
16 the procedure provided in Chapter 3.5 (commencing with Section  
17 11340) of Part 1 of Division 3 of Title 2 of the Government Code  
18 or otherwise prescribe requirements consistent with this section.

19 (h) The commissioner may post prescribed requirements,  
20 consistent with this section, on the department's Internet Web site.

21 SEC. 2. Section 922.6 of the Insurance Code is amended to  
22 read:

23 ~~922.6. (a) Unless credit for reinsurance or deduction from~~  
24 ~~liability is disallowed pursuant to Section 922.3 or 923, credit for~~  
25 ~~reinsurance or deduction from liability shall be allowed a foreign~~  
26 ~~ceding insurer to the extent credit has been allowed by the ceding~~  
27 ~~insurer's state of domicile if either:~~

28 ~~(1) The state of domicile is accredited by the NAIC.~~

29 ~~(2) Credit or deduction from liability would be allowed under~~  
30 ~~this statute if the foreign ceding insurer were domiciled in this~~  
31 ~~state.~~

32 ~~(b) Notwithstanding subdivision (a), credit for reinsurance or~~  
33 ~~deduction from liability may be disallowed upon a finding by the~~  
34 ~~commissioner that either the financial condition of the reinsurer,~~  
35 ~~or the collateral or other security provided by the reinsurer, does~~  
36 ~~not, in substance, satisfy the credit for reinsurance requirements~~  
37 ~~applicable to ceding insurers domiciled in this state.~~

38 *922.6. Credit for reinsurance shall not be denied a foreign*  
39 *ceding insurer to the extent that credit is recognized by the ceding*  
40 *insurer's domestic state regulator, provided that the domestic state*

1 *is accredited by the National Association of Insurance*  
2 *Commissioners (NAIC), or the domestic state regulator has*  
3 *financial solvency requirements substantially similar to the*  
4 *requirements necessary for NAIC accreditation.*

O